Application	:	A.05-11-022
Exhibit Number	:	
Commissioner	:	Brown
Admin. Law Judge	:	Galvin
Witnesses	:	Fest

DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

Report on Marginal Cost, Revenue Allocation, and Rate Design

for PacifiCorp

General Rate Case
Test Year 2007

San Francisco, California
June 23, 2006

DIVISION OF RATEPAYER ADVOCATES REPORT ON MARGINAL COST, REVENUE ALLOCATION, AND RATE DESIGN

FOR PACIFICORP TEST YEAR 2007 GENERAL RATE CASE

TABLE OF CONTENTS

CHAPTER 1

EXECUTIVE SUMMARY

The Division of Ratepayers Advocates (DRA) submits this report to the California Public Utilities Commission (CPUC or "Commission") in response to Application A.05-11-022, the General Rate Case (GRC) application of PacifiCorp, filed on November 29, 2005 and supplemented on May 5, 2006.

PacifiCorp requests an increase in California jurisdictional revenues of $12.8 million. DRA recommends instead an increase of $3.4 million. DRA's recommendations regarding revenue requirements were presented in its Results-of-Operations report served on June 16, 2006. This report presents DRA's recommendations regarding marginal-cost analysis, revenue allocation, and rate design; this report also addresses the Company's proposed changes in service fees and tariff terms.

DRA is not contesting PacifiCorp's marginal-cost study. Regarding revenue allocation, the Company is proposing a novel method of calculating class-revenue caps. DRA instead recommends the established "additive" capping method, specifically a cap of 2.5% above the overall revenue increase (the same cap used in the previous PacifiCorp GRC). In the area of rate design, DRA recommends the use of the composite tier differential method to set residential commodity rates.

DRA believes several of the service-fee increases requested by the Company are excessive. DRA proposes more moderate increases in those fees. Finally, DRA recommends that some of the tariff-language changes requested by the Company be adopted in modified form.

CHAPTER 2

MARGINAL COST

To translate the overall revenue requirement into individual rates, the revenue requirement must be allocated among the different classes of service. The starting point for this process is a marginal-cost study.

In PacifiCorp's previous GRC (A.01-03-026), DRA contested only one marginal-cost issue: the methodology for calculating customer costs. The Company advocated the "rental" method, while DRA supported the "new customer only" (NCO) method. The case was resolved by a settlement in which the Company agreed to the NCO method.

In the present GRC, PacifiCorp uses the NCO method. According to the Company, the only other change in marginal-cost methodology from the previous GRC is that the Company used a five-year analysis for transmission plant rather than a ten-year analysis. The Company says a five-year time horizon is more realistic in light of the changing demands on the transmission system.

DRA is not contesting PacifiCorp's marginal-cost study in this GRC.

CHAPTER 3

REVENUE ALLOCATION

In apportioning the overall revenue requirement to the various classes of service, the allocation indicated by the marginal-cost study often is tempered by "caps" to limit the revenue increase experienced by any individual class of customers.

A cap is expressed as a function of the percentage increase in overall revenue. In other CPUC cases, class revenue caps have been specified as maximum percentage differences above the overall increase. For example, if the overall revenue increase were 8%, and the cap were set at 3%, class-level revenue increases would be limited to 8% + 3%, or 11%. In the previous PacifiCorp GRC, ORA proposed that no class receive an increase more than 2.5% above the overall increase.

PacifiCorp and DRA are in agreement that a cap should be employed in this GRC to limit the impact of marginal-cost-based class revenues. However, PacifiCorp and DRA differ about how to design the cap. PacifiCorp proposes in this GRC that the cap be set at 1.33 times the overall increase. For example, if the overall increase were 9%, the cap would be 1.33 times 9%, or 12%. In other words, PacifiCorp's proposed cap is multiplicative rather than additive. DRA recommends that the Commission instead adopt a 2.5% additive cap, the same as was adopted in the previous PacifiCorp GRC.

DRA is not aware of a multiplicative cap being used previously at the CPUC, nor is the Company (response to DRA-14.4). Although similar results could be obtained from either method by adjusting the respective percentages, DRA does not see a reason to depart from the already well-established "additive" capping method. DRA proposes for this GRC that class-revenue increases be capped at 2.5% above the system-average revenue increase. DRA proposed a 2.5% cap in the previous PacifiCorp GRC. This cap was adopted in the settlement of that case, and approved by the Commission in D.03-11-019:

> The revenue allocation and rate design settlement utilizes the revenue requirement proposed in the revenue requirement settlement, and imposes ORA's recommendation that the revenue requirement allocation to any customer class not exceed 2.5% over the system average increase of 4.7%. The rate design also eliminates an unneeded experimental rate schedule, and revises baseline allowances consistent with D.02-04-026. In addition, the revenue allocation and rate design settlement is an all-party settlement. Therefore, it is reasonable in light of the whole record.
>
> [D.03-11-019, p. 6]

Caps of similar magnitude have also been adopted in a number of other Commission decisions; for example, 3% caps were used in the 2000 SDG&E Rate Design Window (D.00-12-058) and the 1993 PG&E GRC (D.92-12-057). In the latter case, the system-average percentage change in revenue (SAPC) was 3.42%:

> Given the size of the rate increase we are authorizing today, we believe PG&E's recommendation of SAPC plus or minus 3% is appropriate and will not result in onerous rate changes.
>
> [D.92-12-057, 47 CPUC 2d, p. 294]

In a more recent case, the 2003 SDG&E Rate Design Window, the Commission approved a settlement providing for a cap of 3% or less (D.04-04-042).

In the present GRC, DRA recommends an overall revenue increase of 4.8%. Therefore, under a 2.5% cap, no class of service[1] will receive an increase greater than 4.8% + 2.5%, or 7.3%. The following table compares the Company's requested revenue increase with the amount recommended by DRA:

---

[1] Except "Agricultural Pumping Service – USBR." Rates for this service will be set pursuant to Decision 06-04-034 (the 2006 Klamath Basin rate decision) so the caps used for other rates will not be applicable.

TABLE 3-1

ALLOCATION OF REVENUE REQUIREMENT

Class	Present Revenues	Company Position Proposed Revenues	Company Position Percent Change	DRA Position Proposed Revenues	DRA Position Percent Change
Residential Service	$ 33,287,640	$ 41,656,851	25.1%	$ 35,709,941	7.3%
Small General Service - < 20 kW	7,237,630	8,080,853	11.7%	7,350,772	1.6%
Small General Service - 20 kW & Over	6,793,866	7,583,887	11.6%	6,903,509	1.6%
Large General Service - 100 kW & Over	6,891,585	7,696,145	11.7%	6,991,444	1.4%
Large General Service - 500 kW & Over	6,393,613	7,135,351	11.6%	6,492,097	1.5%
Agricultural Pumping Service	5,535,526	6,711,406	21.2%	5,879,528	6.2%
Agricultural Pumping Service - USBR	1,330,902	1,438,088	8.1%	1,431,850	7.6%
Total Lighting	544,312	607,763	11.7%	553,420	1.7%
AGA	102,728	102,728	0.0%	102,728	0.0%
Total Sales (Including AGA)	$ 68,117,802	$ 81,013,073	18.9%	$ 71,415,289	4.8%

CHAPTER 4

RATE DESIGN

Rate design is the calculation of individual rates, to collect the class revenue requirements determined in the revenue allocation process.

The Company proposes to increase each existing rate element (for example, monthly charge or kilowatt-hour charge) by the percent needed to achieve the new class-revenue requirement. For example, if a class were allocated a 5% increase, both the customer charge and kwh rate would be increased by 5%. However, the Company proposes that the residential customer charge, presently $5.30, remain unchanged.

DRA considers the above approach to be reasonable in this case, but proposes one modification. DRA recommends that the residential commodity (kwh) rates be calculated using the composite-tier method, rather than by uniform percentage increases to the existing rates. (The Tier I rate applies to the customer's monthly "baseline" quantity of electricity; the higher Tier II rate applies to any consumption in excess of the baseline.) The composite-tier method incorporates customer-charge revenue in calculating the Tier II commodity rate, rather than basing the Tier II rate on the Tier I commodity rate alone. The Commission has stated that this method is the appropriate way to calculate residential commodity rates, both for gas and electric service. For example, in D.04-01-027 the Commission adopted a recommendation from DRA (known then as ORA) that Sierra Pacific Power Company use the composite-tier method; the decision language cites some of the prior cases where the Commission had endorsed the composite-tier method:

> We adopt ORA's method of setting the tier differential. This method has been used consistently in the past and recently in D.00-04-060, where we again found it appropriate to use the composite method in determining the tier 1 and tier 2 differential. We said:

> Section 739 (c) requires the Commission to establish "baseline rates" which apply to the lowest block of an increasing block rate structure. The statute is premised on the principle that "electricity and gas are necessities, for which a low affordable rate is desirable." (739 (c)(2).) Section 739.7 similarly requires an "appropriate inverted rate structure." These code sections have been consistently interpreted to include the customer charge in determining whether the rate structure is, in fact, inverted. Under this "composite tier differential" approach, customer charges are considered part of the Tier I, or baseline, rate for the purpose of calculating tier differentials.
>
> • • •
>
> We reject SoCalGas' proposal. As we said in the last SoCalGas BCAP, "Therefore we should retain the existing tier differential calculated on a composite basis. The composite tier differential is more meaningful than the simple differential because it gives the price for access and purchase of a quantity of gas that covers basic needs. (D.97-04-082, *mimeo., et* 118.) (D.00-04-060, *mimeo.,* at 105, 107; 202 PUR 4th 255, 310,311.)
>
> [D.04-01-027, pp. 18-19]

DRA recommends that the tier differential be 15%. Compared to the Company's proposal, a 15% composite-tier method of calculation yields a larger difference between the Tier I and Tier II rates, i.e. the Tier I rate will be lower and the Tier II rate higher. The increase in the tier differential will be approximately three-quarters of a cent per kilowatt-hour. Changing the tier differential does not change total residential revenue.

CHAPTER 5

SERVICE FEES AND TARIFF RULES

The Company proposes to increase and restructure seven of its service fees. DRA believes that some of these proposed increases are reasonable, but that others are excessive and should be rejected by the Commission. Also, the Company proposes a number of tariff-language changes; ORA has no objection to most of the changes, but recommends alternatives to a couple of them.

The Company's proposed changes in service fees are described on pages 17 through 28 of the testimony of Ms. Rockney, the Company's Director of Customer and Regulatory Liaison. In general, the Company asks to raise and/or restructure some of its fees in order to bring the service fees closer to cost, to simplify them, or to align them with the fees in other states where the Company operates.

Reconnection Fee

Among the service fees the Company proposes to increase are reconnection fees. These are the charges for reconnecting service after it has been disconnected due to nonpayment. The Company proposes to raise the fee for reconnection during its normal office hours from $15, plus a mileage charge, to a flat fee of $30. For times outside business hours, the proposed charge would increase from $30, plus mileage, to $75 for reconnections performed on weekday evenings (5 PM to 8 PM), and $175 for reconnections performed later in the evening, or any time on weekends and holidays.

DRA notes that the service fees have not changed for at least ten years, and believes that some increases are reasonable to better reflect the cost of the services. However, DRA takes exception to some of the proposed increases in the reconnection fees. DRA believes the proposed "off-hour" reconnection fees of $75 and $175 are excessive. These proposed charges substantially exceed those authorized by the

Commission for other electric utilities in the state; DRA examined the tariffs of Pacific Gas and Electric, Southern California Edison, San Diego Gas & Electric, and Sierra Pacific Power, and found no reconnection charge higher than $60.[2]

DRA recommends that the Commission reject the Company's proposed "off-hours" reconnection charges of $75 and $175. Instead, DRA proposes that PacifiCorp's "off-hours" reconnection charge be set at $45; this would maintain the existing $15 differential between the charges for reconnections during business hours, and the charges outside business hours. DRA does not oppose the Company's proposed $30 fee for reconnections within business hours.

Returned-Check Fee

The Company also proposes to increase the returned-check fee, from $6.50 to $20, and to apply it to other forms of payment as well; it would become a returned-payment fee, rather than applying only to checks. The Company says the cost of processing a returned payment is approximately $23 and, therefore, a $20 fee would better reflect costs.

As with the reconnection fee, DRA notes that the proposed $20 returned-payment fee is much larger than the Commission has granted to other California utilities. The following table presents the corresponding fees presently in effect at other utilities:

Sierra Pacific Power Company	$ 5.00
Southern California Gas Company	$ 7.50
San Diego Gas & Electric Company	$ 8.00
Pacific Gas and Electric Company	$ 8.00
Southern California Edison Company	$ 10.00

DRA recommends that the Commission approve a returned-payment fee no higher than $10.00.

---

[2] San Diego Gas & Electric and Southern California Edison collect $60 reconnection fees, but only under limited circumstances. SDG&E collects the $60 fee to reconnect service disconnected at the pole. Edison collects the $60 fee only to reconnect service disconnected at the pole, *and* the reconnection is performed after business hours or on weekends. SDG&E's and Edison's "basic" reconnection fees are $15 and $14, respectively.

Trouble Call Charge

DRA also is concerned about the proposed change in the Trouble Call charge. This is a fee the Company collects for a service visit when the problem is on the customer's side of the meter. The present fees are $15 plus mileage during office hours and $30 plus mileage outside office hours. The Company proposes to charge a fee equal to the actual cost for each service call, in the interests of cost responsibility and conformance with Company practices in other jurisdictions. However, DRA is concerned that a low- or moderate-income customer might be hesitant to request this service, not knowing what the charge might be. According to Ms. Rockney's testimony (page 25), the Company billed only one Trouble Call charge in Fiscal 2005. Therefore, it is evident that underpricing this service has not caused customers to overuse it. DRA proposes the Trouble Call fee be set at $25 or less.

Identification Requirements for Service Applicants

The Company is proposing revisions to the tariff rule governing applications for service (currently designated as "Rule 3"). The present tariff language does not specify any form of identification to be provided by applicants for service. The Company's proposed language would require applicants to provide a California driver's license number and a Social Security number, or else a state or federal photo ID, or else a birth certificate *and* a photo ID from a school or employer *and* the name and phone number of a reference, such as a teacher, employer, or caseworker.

DRA is concerned that, if the Company's proposed revisions were adopted and strictly enforced, some applicants might face problems or delays in obtaining service. It is possible that certain applicants might not have the documentation the Company proposes to require. Non-drivers would not have drivers' licenses. Some applicants who are not U.S. citizens might not have Social Security numbers, or photo IDs. A retired person would not have an employee ID or a current employer reference. Some schools or employers might not issue photo IDs. Some applicants might not possess an original birth certificate, and obtaining a copy could take a week or longer.

PacifiCorp's existing Rule 3 is similar to the tariffs of other California energy utilities, which do not have identification requirements such as PacifiCorp is requesting in this GRC. In reply to a DRA data request (56.3) asking whether there was a specific problem the proposed requirements were meant to address, PacifiCorp replied, "The Company requests this information from applicants in order to validate the customer's identity. This helps ensure an applicant is who they say they are and benefits all parties by not relying on invalid information."

Given the potential complications outlined above, DRA does not believe the Company has offered sufficient reason to implement these proposed requirements. Therefore, DRA recommends that the Commission reject these proposed tariff revisions.

Tariff Numbering

Finally, the Company proposes relocating some tariff language, including the creation of a new Rule 3, thereby renumbering most of the service Rules. DRA is not contesting the relocation of tariff language, but DRA recommends that the existing numbering of the Rules be maintained, so as not to deviate from the relatively standardized numbering scheme used by the other electric companies regulated by the Commission. DRA suggests that the Company designate the pertinent material as "Rule 2.1" instead of creating a new "Rule 3" and renumbering the subsequent Rules.

APPENDIX

QUALIFICATIONS AND PREPARED TESTIMONY

OF

ANTHONY FEST

Q.1 Please state your name and address.

A.1. My name is Anthony Fest. My business address is the California Public Utilities Commission, Division of Ratepayer Advocates, 505 Van Ness Avenue, San Francisco, California.

Q.2. By whom are you employed and in what capacity?

A.2. I am employed as a Public Utility Regulatory Analyst in the Energy Cost of Service and Natural Gas Branch of the Division of Ratepayer Advocates (DRA) of the California Public Utilities Commission (CPUC). I joined the CPUC staff in 1997, working in the Energy Division. I transferred to DRA in 2000.

Q.3. Please summarize your educational and professional experience.

A.3. I hold a Bachelor of Arts degree in Economics from California State University, Fullerton. I have held staff positions at the Federal Energy Regulatory Commission, the Maryland Public Service Commission, the Nevada Public Service Commission, and Southwest Gas Corporation. I have worked on matters of cost-of-service, allocation and rates design, and other regulatory issues.

Q.4. What is your area of responsibility in this proceeding?

A.4. I am responsible for all the chapters in DRA's Report on Marginal Cost, Revenue Allocation, and Rate Design.

Q.5 Does this conclude your prepared testimony?

A.5 Yes, it does.